



U. S. Chemical Safety and Hazard Investigation Board

Office of Inspector General

Washington, D.C. 20460

September 28, 2006

MEMORANDUM

SUBJECT: Audit of U.S. Chemical Safety and Hazard Investigation Board's
Fiscal 2005 and 2004 Financial Statements

FROM: Melissa Heist *Melissa Heist*
Assistant Inspector General for Audit

TO: Carolyn W. Merritt
Chairman

This memorandum transmits the audit report and management letter on the U.S. Chemical Safety and Hazard Investigation Board's (CSB's) Fiscal 2005 and 2004 financial statements. The audit is required by Public Law 107-289, the Accountability of Tax Dollars Act of 2002.

The independent public accounting firm of Leon Snead & Company, P.C., performed the audit of the CSB financial statements as of and for the years ended September 30, 2005 and 2004. The audit was required to be done in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the *Financial Audit Manual* of the Government Accountability Office/President's Council on Integrity and Efficiency.

Leon Snead & Company, P.C., is responsible for the attached auditor's report dated September 28, 2006, and the conclusions expressed in the report. We do not express opinions on CSB's financial statements or internal controls, or on whether CSB's financial management systems substantially complied with the Federal Financial Management Improvement Act; or conclusions on compliance with laws and regulations.

Should you have any questions, please contact me at (202) 566-0899 or Heist.Melissa@epa.gov or Patricia Brooks Taylor, Project Officer, at (202) 566-2938 or Taylor.Patricia@epa.gov.

Attachments

**United States Chemical Safety and Hazard
Investigation Board**

Audit of Financial Statements

**As of and for the Years Ended
September 30, 2005 and 2004**

Submitted By

Leon Snead & Company, P.C.
Certified Public Accountants & Management Consultants

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Inspector General, United States Chemical Safety and Hazard Investigation Board
Chairperson, United States Chemical Safety and Hazard Investigation Board

Independent Auditor's Report

We have audited the balance sheets of the Chemical Safety and Hazard Investigation Board (CSB), as of September 30, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, and financing (the financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the internal control over financial reporting, and tested the CSB's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that CSB's financial statements, as of and for the years ended September 30, 2005 and 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no material weaknesses involving the internal control over financial reporting.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the CSB's financial statements, our consideration of the CSB's internal control over financial reporting, our tests of the CSB's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the CSB, as of September 30, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and financing of the CSB, as of and for the years ended September 30, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America, or OMB Circular No. 136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information, and analysis of the information for consistency with the financial statements. However, we did not audit the information and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above. However, we noted another matter involving internal control that we have reported to the management of CSB in a separate letter dated August 31, 2006.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02.

RESPONSIBILITIES

Management Responsibilities

Management of the CSB is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining and assessing internal control to provide reasonable assurance that the broad control objectives of the *Federal Managers' Financial Integrity Act* (FMFIA) are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Our responsibility is to express an opinion on the fiscal year 2005 and 2004 financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes: (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management; and (3) evaluating that our audits provide a reasonable basis for our opinion. We believe our audits provide a reasonable basis for our opinion.

In planning and performing our audit, we considered the CSB's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not express an opinion, thereon.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CSB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the CSB. Providing an opinion on compliance with certain provisions of laws, and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

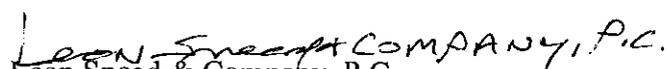
Under OMB Bulletin No. 01-02, auditors are generally required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level specified in *Federal Financial Management Improvement Act* (FFMIA). The Accountability of Tax Dollars Act, which requires CSB to prepare and submit audited financial statements to Congress, and the Director of OMB, did not extend to CSB the requirement to comply with FFMIA. Consequently, we did not test, nor are we reporting on, the CSB's compliance with FFMIA.

AGENCY COMMENTS

CSB officials indicated that the agency has corrected the issues discussed in the management letter, except for continuity of operations and contingency planning. CSB officials noted that it will take additional steps to promptly address the remaining issue.

DISTRIBUTION

This report is intended solely for the information and use of the management of CSB, the Office of Inspector General of the CSB, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.


Leon Snead & Company, P.C.
August 31, 2006

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
BALANCE SHEETS
As of September 30, 2005 and 2004
(In Dollars)**

| | <u>2005</u> | <u>2004</u> |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Intragovernmental: | | |
| Fund Balance With Treasury (Note 2) | \$ 3,927,630 | \$ 3,290,959 |
| Total Intragovernmental | <u>3,927,630</u> | <u>3,290,959</u> |
| Accounts Receivable, Net (Note 4) | 816 | - |
| General Property, Plant and Equipment, Net (Note 3) | 688,848 | 768,166 |
| Other (Note 5) | 59,000 | 59,000 |
| Total Assets | <u><u>\$ 4,676,294</u></u> | <u><u>\$ 4,118,125</u></u> |
| LIABILITIES | | |
| Intragovernmental: | | |
| Other (Note 7) | \$ 32,495 | \$ 14,860 |
| Total Intragovernmental | <u>32,495</u> | <u>14,860</u> |
| Accounts Payable (Note 7) | 187,321 | 131,252 |
| Other (Note 7) | <u>604,779</u> | <u>676,700</u> |
| Total Liabilities | <u>824,595</u> | <u>822,812</u> |
| NET POSITION | | |
| Unexpended Appropriations | 3,396,962 | 2,779,739 |
| Cumulative Results of Operations | <u>454,737</u> | <u>515,574</u> |
| Total Net Position | <u><u>\$ 3,851,699</u></u> | <u><u>\$ 3,295,313</u></u> |
| Total Liabilities and Net Position | <u><u>\$ 4,676,294</u></u> | <u><u>\$ 4,118,125</u></u> |

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENTS OF NET COST
For the Years Ended September 30, 2005 and 2004
(In Dollars)**

| | 2005 | 2004 |
|---------------------------------|------------------|------------------|
| PROGRAM COSTS | | |
| Intragovernmental Gross Costs | \$ 1,605,451 | \$ 1,801,063 |
| Intragovernmental Net Costs | 1,605,451 | 1,801,063 |
| Gross Costs With the Public | 7,414,787 | 6,548,189 |
| Net Costs With the Public | 7,414,787 | 6,548,189 |
| Total Net Cost | 9,020,238 | 8,349,252 |
| Net Cost Of Operations | \$ 9,020,238 | \$ 8,349,252 |

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2005 and 2004
(In Dollars)**

| | <u>2005 Cumulative Results Of Operations</u> | <u>2005 Unexpended Appropriations</u> | <u>2004 Cumulative Results Of Operations</u> | <u>2004 Unexpended Appropriations</u> |
|--|--|---|--|---|
| Beginning Balances | \$ 515,574 | \$ 2,779,739 | \$ 536,819 | \$ 2,301,922 |
| Budgetary Financing Sources | | | | |
| Appropriations Received | - | 9,500,000 | - | 8,700,000 |
| Other Adjustments (recissions, etc) | | (182,994) | - | (429,916) |
| Appropriations Used | 8,699,783 | (8,699,783) | 7,792,267 | (7,792,267) |
| Other Financing Sources | | | | |
| Imputed Financing from Costs Absorbed by Others | 259,618 | | 535,740 | |
| Total Financing Sources | <u>8,959,401</u> | <u>617,223</u> | <u>8,328,007</u> | <u>477,817</u> |
| Net Cost of Operations | <u>9,020,238</u> | | <u>8,349,252</u> | |
| Ending Balances | <u><u>\$ 454,737</u></u> | <u><u>\$ 3,396,962</u></u> | <u><u>\$ 515,574</u></u> | <u><u>\$ 2,779,739</u></u> |

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2005 and 2004
(In Dollars)**

| | 2005 | 2004 |
|--|----------------------|----------------------|
| BUDGETARY RESOURCES | | |
| Budget Authority | | |
| Appropriations | \$ 9,500,000 | \$ 8,700,000 |
| Unobligated Balance | | |
| Beginning of Period | 1,475,917 | 1,227,821 |
| Subtotal | 10,975,917 | 9,927,821 |
| Actual Recoveries of Prior-Year Obligations | 259,249 | 748,545 |
| Permanently Not Available | | |
| Cancellations of Expired and No-Year Authority | (106,994) | (378,586) |
| Enacted Rescissions | (76,000) | (51,330) |
| TOTAL BUDGETARY RESOURCES | \$ 11,052,172 | \$ 10,246,450 |

**STATUS OF BUDGETARY
RESOURCES**

| | | |
|--|----------------------|----------------------|
| Obligations Incurred: | | |
| Direct | \$ 9,098,861 | \$ 8,770,533 |
| Subtotal | 9,098,861 | 8,770,533 |
| Unobligated Balance: | | |
| Apportioned | 885,718 | 518,058 |
| Unobligated Balance Not Available | | |
| Other | 1,067,593 | 957,859 |
| TOTAL STATUS OF BUDGETARY RESOURCES | \$ 11,052,172 | \$ 10,246,450 |

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2005 and 2004
(In Dollars)**

| RELATIONSHIP OF OBLIGATIONS TO OUTLAYS | <u>2005</u> | <u>2004</u> |
|---|----------------------------|----------------------------|
| Obligated Balance, Net, Beginning of Period | \$ 1,815,042 | \$ 1,583,988 |
| Obligated Balance, Net, End of Period: | | |
| UndeliveredOrders | 1,384,651 | 1,244,822 |
| AccountsPayable | 589,668 | 570,220 |
| Outlays: | | |
| Disbursements | <u>8,680,335</u> | <u>7,790,932</u> |
| Subtotal | 8,680,335 | 7,790,932 |
| Net Outlays | <u><u>\$ 8,680,335</u></u> | <u><u>\$ 7,790,932</u></u> |

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENTS OF FINANCING
For the Years Ended September 30, 2005 and 2004
(In Dollars)**

| | 2005 | 2004 |
|---|-------------------------|-------------------------|
| RESOURCES USED TO FINANCE ACTIVITIES | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | \$ 9,098,861 | \$ 8,770,533 |
| Less: Spending Authority from Offsetting Collections and Recoveries | 259,249 | 748,545 |
| Obligations Net of Offsetting Collections and Recoveries | 8,839,612 | 8,021,988 |
| Other Resources | | |
| Imputed Financing from Costs Absorbed by Others | 259,618 | 535,740 |
| Net Other Resources Used to Finance Activities | 259,618 | 535,740 |
| Total Resources Used to Finance Activities | 9,099,230 | 8,557,728 |
| RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS | | |
| Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided | 139,829 | 229,721 |
| Resources That Fund Expenses Recognized in Prior Periods | 17,666 | 199,642 |
| Resources That Finance the Acquisition of Assets | 171,658 | 10,200 |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | 329,153 | 439,563 |
| Total Resources Used to Finance the Net Cost of Operations | 8,770,077 | 8,118,165 |
| COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD | | |
| Components Requiring or Generating Resources in Future Periods | | |
| Increase in Annual Leave Liability | - | 6,926 |
| Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period | - | 6,926 |
| Components Not Requiring or Generating Resources | | |
| Depreciation and Amortization | 250,977 | 224,161 |
| Other | (816) | - |
| Total Components of Net Cost of Operations That will not Require or Generate Resources | 250,161 | 224,161 |
| Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period | 250,161 | 231,087 |
| NET COST OF OPERATIONS | \$ 9,020,238 | \$ 8,349,252 |

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of the Chemical Safety and Hazard Investigation Board (CSB). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of CSB in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, *Financial Reporting Requirements* and CSB accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control CSB's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the Statement of Financing. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all dollar amounts are presented in dollars.

B. Reporting Entity

The United States Chemical Safety and Hazard Investigation Board (CSB) is an independent Federal agency with the mission of ensuring the safety of workers and the public by promoting chemical safety and accident prevention. CSB was established by the Clean Air Act Amendments of 1990, and is responsible for advising the President and Congress on key issues related to chemical safety and evaluating the effectiveness of other Government agencies on safety requirements. The CSB receives all of its funding through appropriations.

CSB has rights and ownership of all assets reported in these financial statements. CSB does not possess any non-entity assets.

***NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal requirements on the use of federal funds.

D. Revenues & Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating and capital expenditures. Appropriations are recognized as a financing source when expended. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

The CSB recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on our behalf by the Office of Personnel Management (OPM).

E. Fund Balance with Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. CSB does not maintain cash in commercial bank accounts. See Note 2 for additional information.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Accounts Receivable

Accounts receivable owed to CSB include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent.

G. Property, Plant and Equipment (PP&E), Net

CSB's property, plant and equipment are recorded at original acquisition cost and are depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. CSB's capitalization threshold is \$10,000 for individual purchases and \$50,000 for bulk purchases. The useful life classifications for capitalized assets are as follows:

| <u>Description</u> | <u>Useful Life (years)</u> |
|------------------------|----------------------------|
| Leasehold Improvements | 9 |
| Office Furniture | 7 |
| Office Equipment | 5 |
| Computer Equipment | 3 |

***NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

H. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

I. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, Congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding. Intragovernmental liabilities are claims against CSB by other Federal agencies. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as Components requiring or generating resources on the Statement of Financing. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities.

J. Accounts Payable

Accounts payable consists of amounts owed to other Federal agencies and the public.

K. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Retirement Plans

CSB employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The employees who participate in CSRS are beneficiaries of CSB's matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability.

FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 elected to join either FERS and Social Security, or remain in CSRS. Employees hired as of January 1, 1987 are automatically covered by FERS. FERS offers a savings plan to which CSB automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, CSB also contributes the employer's matching share of Social Security.

CSB recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors to CSB for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. CSB recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

CSB does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM.

***NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

M. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates.

N. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. CSB recognized imputed costs and financing sources in fiscal years 2005 and 2004 to the extent directed by OMB.

O. Expired Accounts and Cancelled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account in which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled.

P. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. CSB recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. CSB discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to CSB for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made. There are no contingencies that require disclosure.

Q. Reclassification

Certain fiscal year 2004 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

| | <u>2005</u> | <u>2004</u> |
|--------------------------------------|---------------------|---------------------|
| Fund Balances | | |
| Appropriated Funds | <u>\$ 3,927,630</u> | <u>\$ 3,290,959</u> |
| Status of Fund Balance with Treasury | | |
| Unobligated Balance | | |
| Available | \$ 885,718 | \$ 518,058 |
| Unavailable | 1,067,593 | 957,859 |
| Obligated Balance not yet Disbursed | <u>1,974,319</u> | <u>1,815,042</u> |
| Total | <u>\$ 3,927,630</u> | <u>\$ 3,290,959</u> |

Funds on deposit with Treasury were \$4,034,624 as of September 30, 2005. The discrepancy between the funds on deposit with Treasury and the funds reported by CSB is due to \$106,994 in unused funds remaining in the 2000 cancelled year that are to be returned to Treasury.

Restricted unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

NOTE 3. GENERAL PROPERTY, PLANT, AND EQUIPMENT

Schedule of Property, Plant, and Equipment as of September 30, 2005

| <u>Description</u> | <u>Acquisition Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|------------------------|-----------------------------|-------------------------------------|---------------------------|
| Leasehold Improvements | \$ 711,505 | \$ (355,752) | \$ 355,753 |
| Office Furniture | 520,021 | (334,299) | 185,722 |
| Computer Equipment | 596,043 | (484,869) | 111,174 |
| Office Equipment | <u>76,892</u> | <u>(40,693)</u> | <u>36,199</u> |
| TOTALS | <u>\$ 1,904,461</u> | <u>\$ (1,215,613)</u> | <u>\$ 688,848</u> |

Schedule of Property, Plant, and Equipment as of September 30, 2004

| <u>Description</u> | <u>Acquisition Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|------------------------|-----------------------------|-------------------------------------|---------------------------|
| Leasehold Improvements | \$ 711,505 | \$ (276,697) | \$ 434,808 |
| Office Furniture | 520,021 | (260,010) | 260,011 |
| Computer Equipment | 530,296 | (463,039) | 67,257 |
| Office Equipment | <u>38,918</u> | <u>(32,828)</u> | <u>6,090</u> |
| TOTALS | <u>\$ 1,800,740</u> | <u>(\$ 1,032,574)</u> | <u>\$ 768,166</u> |

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2005 and 2004 were as follows:

| | <u>2005</u> | <u>2004</u> |
|------------------------------|---------------|-------------|
| Receivable Due from Employee | \$ 816 | - |
| Total Accounts Receivable | <u>\$ 816</u> | <u>\$ -</u> |

NOTE 5. OTHER ASSETS

| | <u>2005</u> | <u>2004</u> |
|-------------------------|------------------|------------------|
| Deposit on Leased Space | \$ 59,000 | \$ 59,000 |
| Total Other Assets | <u>\$ 59,000</u> | <u>\$ 59,000</u> |

NOTE 6. OPERATING LEASE

CSB occupies office space under a lease agreement that is accounted for as an operating lease. The lease term began on October 1, 2000 and expires on September 30, 2010, with the renewal rights for an additional five years. Lease payments are increased annually based on the adjustments for operating cost and real estate taxes not to be increased by an amount greater than 2 percent of the Base Rental rate in effect for the prior lease year. In the sixth year of the lease the Base Rental Rate shall increase \$2.00 per square foot.

Schedule of Future Minimum Lease Payments

| | |
|-------------------------------------|--------------------|
| 2006 | \$ 714,000 |
| 2007 | 730,000 |
| 2008 | 745,000 |
| 2009 | 760,000 |
| 2010 | <u>775,000</u> |
| Total Future Minimum Lease Payments | <u>\$3,724,000</u> |

NOTE 7. LIABILITIES

The accrued liabilities for CSB are comprised of program expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to quarter-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to quarter-end but were not paid.

Schedule of Liabilities as of September 30,

| | <u>2005</u> | <u>2004</u> |
|---------------------------|------------------|------------------|
| Intragovernmental | | |
| Program Expenses | - | \$14,860 |
| Payroll Taxes Payable | <u>\$32,495</u> | <u>-</u> |
| Total Intragovernmental | 32,495 | 14,860 |
| Accounts Payable | 187,321 | 131,252 |
| Payroll Accrual and Other | 255,255 | 281,691 |
| Unfunded Leave | 234,926 | 252,592 |
| Other Liabilities | <u>114,598</u> | <u>142,417</u> |
| Total Liabilities | <u>\$824,595</u> | <u>\$822,812</u> |

NOTE 8. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on CSB's Balance Sheet as of September 30, 2005 and 2004, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist entirely of unfunded leave. Unfunded leave balances are \$234,926 and \$252,592 as of September 30, 2005 and 2004, respectively.

NOTE 9. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The 2007 Budget of the United States Government, with the Actual Column completed for fiscal year 2005, has not yet been published as of the date of these financial statements. The Budget is expected to be published and delivered to Congress in early February 2006. The 2006 Budget of the United States Government, with the Actual Column completed for 2004, has been reconciled.

NOTE 10. CUSTODIAL ACTIVITY

CSB's custodial collection primarily consists of Freedom of Information Act requests. While these collections are considered custodial, they are not primary to the mission of CSB nor material to the over all financial statements. CSB's total custodial collections are \$1,282 and \$1,021 for the years ended September 30, 2005, and 2004, respectively.



U. S. Chemical Safety and Hazard Investigation Board

MEMORANDUM

To: Melissa Heist
Assistant Inspector General for Audit
September 19, 2006

From: Carolyn W. Merritt *Ed Merritt A.R.M. For C.W.M.*
Chairperson

Subject: Audit of the Chemical Safety and Hazard Investigation Board's Fiscal Year 2005 and 2004 Financial Statements

Thank you for transmitting the draft audit report and management letter on the Chemical Safety and Hazard Investigation Board's (CSB) financial statements for fiscal years 2005 and 2004. I am satisfied with the draft audit report.

The management letter highlights prior year information technology (IT) security control issues that the CSB is addressing. As discussed in the management letter, except for the continuity of operations and contingency planning for IT system, the CSB has corrected the issues raised. The CSB will take additional steps to promptly address the remaining issues.

The CSB takes its financial accounting and reporting responsibilities seriously. I appreciate the time and effort by the auditors who worked on this audit.